

FDIC State Profile

Spring 2006

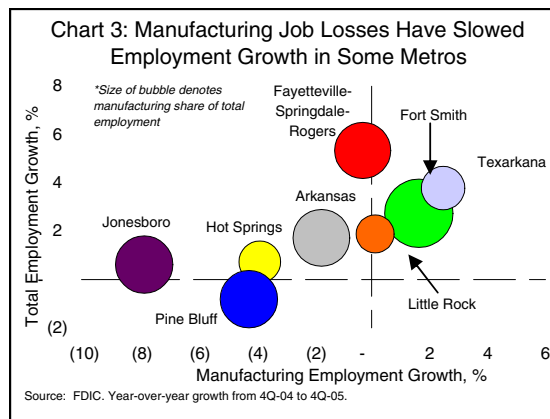
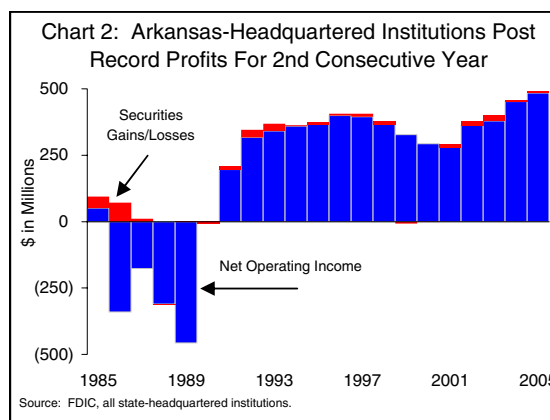
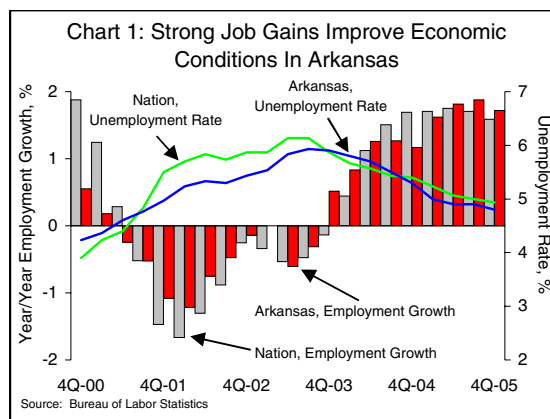
Arkansas

Arkansas' robust economic expansion throughout 2005 contributed to another year of record earnings for institutions headquartered in the state.

- The Arkansas economy continues to add jobs at a healthy pace, while the unemployment rate is falling toward pre-recession levels (see Chart 1). Job growth has been led by the education and health and government sectors, which combined represented nearly one out of every two net new jobs added during the past year.
- The state's strong economy during 2005 also has been beneficial for its banking industry, as institutions headquartered in the state achieved record net income for the second consecutive year, primarily due to increased net operating income (see Chart 2).
- This strong level of earnings helped institutions boost capital ratios and allowances for loan and lease losses. As of year-end 2005, the median tier one leverage capital ratio for institutions headquartered in the state was 10 percent, its highest year-end level on record. The median allowance for loan and lease losses as a percent of total loans was 1.42 percent, the fifth highest rate in the nation.

Continued weakness in manufacturing slows total employment growth in Jonesboro and Pine Bluff.

- Most of the state's metropolitan areas experienced strong employment growth. **Fayetteville-Springdale-Rogers**, **Texarkana**, and **Fort Smith** all ranked within the top 100 metropolitan areas in the nation for employment growth over the past year.¹ These areas experienced healthy growth in most job sectors, while recording negligible job losses or, in some cases, modest gains in the struggling manufacturing sector. Since 2000, Arkansas has shed nearly 39,500 manufacturing jobs, including 3,500 jobs in the past year.
- In contrast, **Jonesboro** and **Pine Bluff** experienced the greatest rate of manufacturing job decline in the state during 2005 (see Chart 3). As a result, employment growth in these areas was below the state average. In addition, both areas ranked within the bottom 100 metropolitan areas in the nation for total employment



¹Out of 367 metropolitan areas in the nation.

State Profile

growth over the past year.¹ On a positive note, manufacturing sectors in these areas are concentrated in the food segment, with the presence of Tyson's Foods, Frito-Lay, and Nestle.² Because food manufacturing is relatively less vulnerable to cyclical downturns and outsourcing, the presence of these companies should provide stable employment for these areas going forward, but is unlikely to be a significant growth driver.

Construction and development lending remains strong, but rising inventories in the northwest Arkansas market could trigger a slowdown.

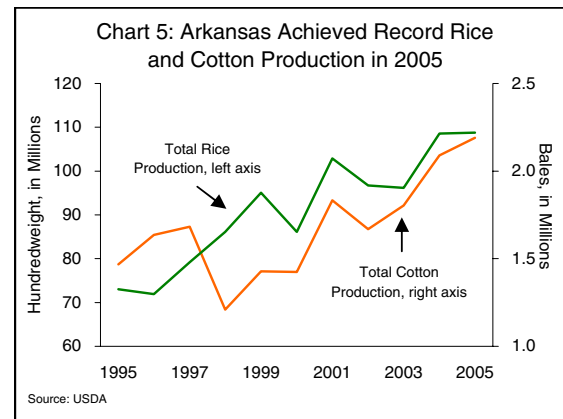
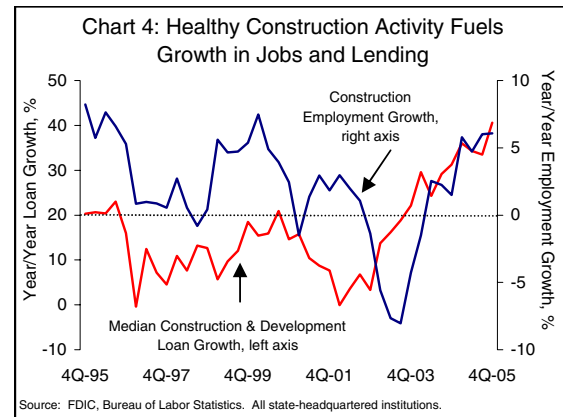
- While accounting for only 5 percent of total state employment, the construction sector experienced strong growth. The sector posted a strong 6.1 percent rate of growth in the fourth quarter of 2005 compared to a year ago. Construction and development lending also was strong at insured institutions headquartered in the state (see Chart 4).
- Construction activity is expected to benefit in the near term from several large-scale commercial projects that are underway in downtown **Little Rock**. In addition, both commercial and residential projects abound throughout the Fayetteville-Springdale-Rogers area.
- Rapid growth in residential construction is becoming a concern in the Fayetteville-Springdale-Rogers market. In **Benton** and **Washington Counties** alone, an estimated 17,500 residential lots are currently in the pipeline.³ In the commercial segment, four projects are expected to bring an additional 2.87 million square feet of office or retail space to the area.⁴ Overall vacancy rates remain moderate across the area, but there are isolated pockets of high vacancies. In **Bentonville**, for instance, the office and retail vacancy rate is approximately 25 percent.³ While Fayetteville-Springdale-Rogers continues to have one of the most vibrant economies in the nation, construction activity could cool as the market adjusts to the volume of space coming to market.

Arkansas' agriculture had a steady year in 2005 but will continue to feel the impact of higher costs, potential subsidy cuts, and localized drought conditions.

- The overall value of Arkansas crops in 2005 was \$2.3 billion, down 6 percent from 2004. Despite drought conditions throughout much of the state, record rice and cotton crops were achieved in 2005 thanks to a strong

planting season (see Chart 5). However, yields for the state's three largest cash crops (rice, soybeans, and cotton) were down moderately from the previous year, primarily due to drought conditions, which reduced the volume of crops available for sale.

- Farm finances will likely continue to be adversely affected by elevated energy costs in the near term. In addition, the 2007 Farm Bill is expected to trim subsidy payments for state farmers by \$1.4 billion, or 6.5 percent, from 2006 payments. Drought conditions are likely to improve throughout much of the state, except in northwest Arkansas, which should benefit most state farmers based on a recent National Weather Service forecast.⁵



²The bulk of manufacturing job losses in Pine Bluff and Jonesboro appear to be related to durable goods.

³Brandi Willis, "2005 Real Estate Review," *Northwest Arkansas Business Journal*, January 2, 2006.

⁴Stacey Roberts, "Office Space Outpacing Demand," *Arkansas Democrat-Gazette*, January 25, 2006.

⁵Available at: http://www.cpc.ncep.noaa.gov/products/expert_assessment/seasonal_drought.html.

Arkansas at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.7%	1.9%	1.2%	1.1%	-0.1%
Manufacturing (17%)	-1.7%	-1.7%	-0.8%	-1.2%	-3.7%
Other (non-manufacturing) Goods-Producing (5%)	5.9%	5.5%	0.7%	1.1%	-5.4%
Private Service-Producing (60%)	2.1%	2.4%	1.9%	1.9%	1.0%
Government (17%)	2.5%	2.7%	0.9%	0.9%	1.6%
Unemployment Rate (% of labor force)	4.8	4.9	5.3	5.6	5.8

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	6.4%	6.7%	7.2%	4.4%
Single-Family Home Permits	21.9%	10.0%	6.0%	4.8%	15.9%
Multifamily Building Permits	21.3%	-23.3%	83.0%	18.7%	16.2%
Existing Home Sales	29.8%	32.1%	12.0%	13.2%	3.1%
Home Price Index	7.5%	8.8%	6.9%	5.8%	4.2%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	12.53	11.85	8.47	8.70	8.76

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	161	163	168	168	170
Total Assets (in millions)	44,364	43,650	40,687	40,687	38,129
New Institutions (# < 3 years)	2	2	0	0	0
Subchapter S Institutions	33	34	32	32	31

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.99	1.91	2.34	2.34	2.83
ALLL/Total Loans (median %)	1.42	1.41	1.50	1.50	1.47
ALLL/Noncurrent Loans (median multiple)	1.83	1.57	1.50	1.50	1.30
Net Loan Losses / Total Loans (median %)	0.18	0.09	0.21	0.20	0.29

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	9.93	9.83	9.80	9.80	9.78
Return on Assets (median %)	0.95	1.07	0.98	1.09	1.09
Pretax Return on Assets (median %)	1.30	1.48	1.34	1.52	1.50
Net Interest Margin (median %)	4.06	4.08	4.05	4.14	4.13
Yield on Earning Assets (median %)	6.37	6.25	5.70	5.66	5.99
Cost of Funding Earning Assets (median %)	2.37	2.18	1.65	1.57	1.84
Provisions to Avg. Assets (median %)	0.11	0.12	0.14	0.16	0.22
Noninterest Income to Avg. Assets (median %)	0.78	0.77	0.74	0.72	0.75
Overhead to Avg. Assets (median %)	3.01	2.86	2.98	2.81	2.82

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	61.7	63.8	60.6	60.6	59.1
Noncore Funding to Assets (median %)	27.5	28.7	25.0	25.0	23.9
Long-term Assets to Assets (median %, call filers)	12.6	12.6	12.3	12.3	14.9
Brokered Deposits (number of institutions)	64	60	45	45	40
Brokered Deposits to Assets (median % for those above)	3.5	3.7	5.2	5.2	3.9

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	83.8	77.9	79.2	79.2	81.0
Commercial Real Estate	181.0	175.1	170.6	170.6	151.4
<i>Construction & Development</i>	47.1	50.6	40.5	40.5	27.3
<i>Multifamily Residential Real Estate</i>	4.2	4.0	4.0	4.0	3.9
<i>Nonresidential Real Estate</i>	130.4	123.8	117.1	117.1	113.5
Residential Real Estate	145.9	146.0	154.0	154.0	156.7
Consumer	51.2	51.5	55.4	55.4	62.4
Agriculture	45.2	48.3	41.9	41.9	44.3

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Memphis, TN-MS-AR	52	26,946	< \$250 million	118 (73.3%)
Little Rock-North Little Rock, AR	37	9,799	\$250 million to \$1 billion	37 (23%)
Fayetteville-Springdale-Rogers, AR-MO	30	6,365	\$1 billion to \$10 billion	6 (3.7%)
Fort Smith, AR-OK	23	3,514	> \$10 billion	0 (0%)
Jonesboro, AR	15	1,957		